Yukon
Economic Outlook
2005

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Yukon
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1. Outlook for Global, U.S. and Canadian Economies

Global Economy
Strong performance in 2004 of the world's two largest economies, the US and China, contributed to global economic growth reaching an estimated 4.8% last year.

Moderation best describes expected global economic growth in 2005. Although economic growth around the world will still be robust, the slowing experienced in late 2004 should continue into the next year with overall growth decreasing to 4.2%. Two key risks to economic growth in 2005 are the effects of increased energy prices and financial market reaction to the continued large US current account deficit.

Lower growth in Italy and Germany precipitated by high unemployment and its effect on consumer spending should keep growth in the **Euro-zone** similar to its performance last year. Growth of 1.6% is forecast for 2005 following an estimated 1.8% growth in 2004. The addition of ten new countries to the EU in 2004 should provide additional stimulus in the future as trade ties between the western and new central/eastern members grow.

The **UK** economy performed well in 2004 with low unemployment and inflation below the Bank of England's target. Economic growth is estimated at just over 3% last year. Tightening monetary policy and interest rate hikes in an effort to keep inflation low will contribute to slightly lower economic growth in 2005 which is forecast to average around 2.7%

The **Japanese** economy slipped back into recession in the middle two quarters of 2004 however showed some gains late in the year. A methodology change in the calculation and reporting of Japan's GDP showed that economic recovery has been proceeding at a slower pace than originally thought. Overall GDP growth was estimated at 2.6% in 2004 however this was mainly driven by strong first quarter activity. Healthy demand from the Asian-Pacific region will continue to support Japanese exporters however deflationary pressures of late driven by stagnant wages and expectations of increased government taxation will hold back growth in 2005. It is forecast that Japan's economy will only see growth in the area of 1.3% this year.

Continued demand from larger economies should bode well for the export oriented **Emerging Asian** economies. Strong 7.0% growth in the last year should moderate slightly to around 6.6% in 2005.

Despite a sub-par performance from the agricultural sector in 2004, increased industrial and service-sector activity should push economic growth in **India** beyond its estimated 6.2% level in 2004 to closer to 7.0% in 2005.

China, much like the rest of the world, felt the impacts of higher energy prices in 2004. It is estimated that high energy costs reduced GDP growth by up to 2.0% last year. However, the decrease in value of the Chinese ranminbi, which is pegged to the US dollar, has allowed increased activity from China's export firms leading to continued spectacular economic growth. China's GDP increased by an estimated 9.5% in 2004 following a 9.1% growth rate the previous year. Although the China government

remains committed to moderating the growth levels of recent years, the economy is still expected to increase by 8.5% in 2005 providing both domestic opportunities and supporting developing economies in the region.

Latin American growth rebounded last year following several years of poor performance. GDP in the region increased by about 5.5% in 2004 following growth of only 1.6% the previous year. Driving most of this increase was resurgence in demand for the region's commodity exports. Although this is expected to moderate over the next year, growth is still expected to remain strong at 4.4% in 2005. **Mexico**, like Canada, has a dependence on US economic and trade activity and will see growth held back to around 3.3% this year from 4.4% in 2004 with the depreciation of the US dollar.

United States and Alaska Economies

Despite a 20% depreciation in the US dollar in the last three years, imports continued to increase in 2004 adding to the growing concern over the US trade deficit. Although exports also increased, they did not match the growth in the level of imports thus worsening the situation. In spite of this, economic growth in the US has considerable momentum and in the last quarter of 2004 registered its 13th consecutive quarter of growth. Overall the US GDP grew by a reported 4.4% in 2004.

On the domestic front growth in 2004 was supported by strong business investment in machinery and equipment, robust consumer spending and a continuation of red-hot housing construction. This activity contributed to employment levels in the US increasing with the unemployment rate dropping to 5.5%

Corporate profits remain strong in the US and are expected to continue to fuel business investment in the coming year. Total business investment in machinery and equipment is expected to grow at double digit figures in 2005. This will offset a cooling housing market where higher mortgage interest rates and a decreasing pool of first-time buyers are expected to slow residential construction growth to just over 1% this year. Consumer spending is also expected to soften. Overall the effect should be that the US economy will grow at a lower rate in 2005 however expansion should still be in the neighbourhood of 3.5%

The pace of US job creation is expected to continue to increase even with higher productivity provided by greater investment in machinery and equipment. US unemployment is expected to drop further to 5.3% in 2005. Increased prices for imports due to the depreciation of the US dollar as well as continued higher energy prices should boost inflation in the US by about ½ a percentage point to 2.7% in 2005.

The **Alaska** economy showed strong growth in 2004 driven by higher oil prices, stronger construction and increased tourism. Alaska's Gross State Product (GSP) increased by an estimated 16% last year to $36 billion US. Although the state's GSP is expected to retract somewhat in 2005, it is not expected to relinquish all of its gains from 2004.

The strong economic performance of China will continue to benefit Alaska as the country is becoming one of Alaska's largest trade partners. China imported $242 million US of Alaska products last year. This is only $5 million US less than Canada, which is currently Alaska's third largest trading partner, imported. Seafood accounts for the majority of Alaskan exports to China however the country also imports logs from the state.

Retail growth should continue in 2005 as large US national chains develop stores in the state. New developments are expected to add an additional 500 jobs in Alaska this year. Wal-Mart and Home Depot are looking at the possibility of opening stores in Juneau in the near future.

Although building construction is expected to slow slightly in 2005, highway and infrastructure construction should show strong gains. While Alaska is looking at improving its current stock of roads it is also investing in development of new access roads in anticipation of the Alaska natural gas pipeline. In addition, much work will be accomplished towards expansion at the Port of Anchorage. The project is expected to double the size of the port to allow larger ships to access the facilities. US military construction in Alaska is expected to reach $500 million US in 2005 and includes both military housing projects as well as project to support the Stryker Brigade.

The Alaska Oil and Gas industry should also see a good year in 2005 as high prices for both crude oil and natural gas will drive increased exploration and development spending in the state.

A weaker US dollar should have a two-fold positive effect on tourism in Alaska. Not only will the weaker dollar make travel to Alaska relatively more affordable to overseas visitors, it will also make Alaska a less expensive vacation option for Americans in comparison to other locations. A stronger tourism season in 2005 is expected to be substantially driven by an increase in cruise ship visitation.

Higher precious and base metal prices of late will also contribute to growth in the Alaskan mining industry. Alaska's Red Dog mine is now earning an operating profit and work towards a $32 million US feasibility study of Donlin Creek, which could become North America's second largest gold mine, will continue in 2005.

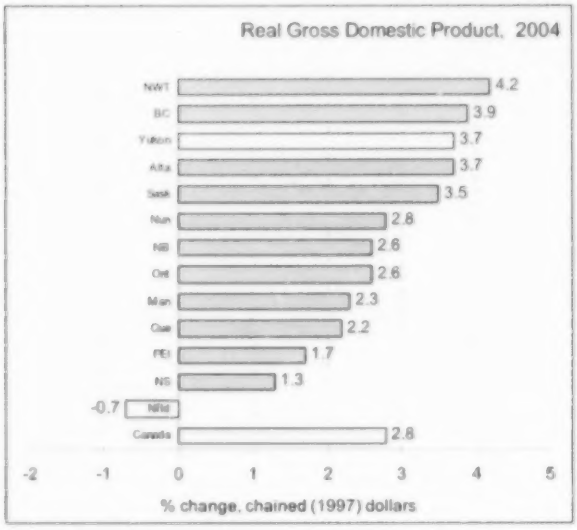
Canadian and Provincial Economies

Canada's economy was supported by strong business investment, vibrant consumer spending and robust residential construction but growth in 2004 was limited to a moderate 2.8% by the effects of the increased value of the Canadian dollar. Although the Canadian loonie had been appreciating over the last year, the effects weren't felt until mid/late 2004 when the stronger dollar not only made Canada's exports relatively more expensive on the world market but also made the price of imports more competitive. Canada's GDP grew by only 1.7% in the final quarter reflecting a 70% decline in Canada's real trade surplus in the last half of the year.

With the Canadian dollar likely to average over 80 cents in 2005, the decrease in the trade surplus should provide a continued hindrance to economic growth. Strong

domestic demand and consumer spending as well as continued strong commodity prices should add some support partially offsetting the effects of the higher loonie and the cooling of residential construction activity. It is expected that economic growth in Canada will be limited to around 2.5% in 2005.

Strong employment gains in 2003 and 2004 led to the Canadian unemployment rate dropping to an average of 7.2% last year. Increased productivity should contribute to slower job creation in 2005 however the unemployment rate should still fall marginally to an average of 7.1%



Lower than expected oil production and a gap in major capital projects will hold economic growth in **Newfoundland and Labrador** to around 1.2% this year. Strong wholesale trade and non-residential construction should boost **Nova Scotia's** GDP by 2.6% over the coming year. The **Prince Edward Island** economy should benefit from a gradual increase in tourism and activity in the aerospace industry resulting in 2.0% growth this year. In addition to a rebound in manufacturing, **New Brunswick** is expected to benefit from strong non-residential construction, spending on highways and a multi-million dollar liquefied natural gas project leading to an overall 2.5% GDP growth rate in 2005.

The high value of the loonie will be a drag on economic growth in **Quebec** in the coming year as exports are expected to remain weak. Domestic consumer spending supported by increased employment prospects and stronger consumer confidence should offset this leading to an overall growth rate in Quebec of about 2.6% in 2005. **Ontario**, like Quebec, is heavily reliant on manufacturing and export. Continued low interest rates for at least the short term and the lower relative price of US machinery and equipment should allow manufactures to adjust to the higher Canadian dollar by investing and increasing productivity. In addition, strength in Ontario's financial sector and benefits of higher commodity prices to the province's primary industries should keep growth on par with its eastern neighbour at 2.6% in 2005.

Manitoba has developed a diversified and healthy economy in recent years. This has been reflected in low unemployment and a high GDP growth rate in the previous year. Manufacturing should show continued strength in 2005 and construction volumes should remain above average. Economic growth in the province should also average 2.6% in 2005. Mining should be a growth leader in **Saskatchewan** in 2005 as non-metal mining (Potash) is forecast to grow by over 15%. Uranium mining is also benefiting from

continued firm demand and prices. Saskatchewan should average around 3.0% growth this year.

High energy prices should make **Alberta** the Canadian provincial growth leader again in 2005. Oil and Gas activity along with the spin-off benefits that follow will continue to run through the economy resulting in growth around 4.0% this year.

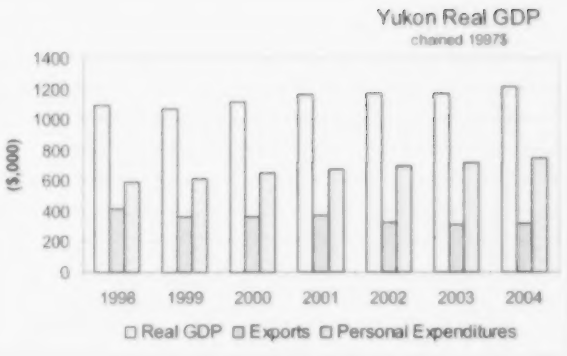
A positive forecast for the tourism industry as well as preparations for the 2010 Winter Olympics to be held in Vancouver should more than offset cooling of forestry activity in **British Columbia.** BC is also expected to experience continued expansion in residential construction this year. It is forecast that the BC economy should expand by 3.1% in 2005.

Nunavut, which has a very large component of its economy related to the public sector, should see solid growth in 2005 with increases in federal funding. Growth in Canada's newest territory should top 3.5% this year. Continued high commodity prices, infrastructure development and diamond production in the **Northwest Territories** should make it the overall growth leader in Canada. Real GDP in the NWT is expected to increase by 9.0% in 2005.

2. Outlook for the Yukon Economy

Economic Output

Yukon real gross domestic product (GDP) growth rebounded to 3.7% in 2004 following marginal growth of less than ½ of a percent in both 2002 and 2003. Yukon GDP growth in 2004 was among the highest in Canada with only the NWT (4.2%) and BC (3.9%) posting higher gains.



Personal expenditure on goods and services grew by 3.9% last year however also contributed to a 7.0% increase in imports of goods and services into the territory. Increased manufacturing and resource activity allowed Yukon goods and services exports to jump by 3.9%. Government expenditures on goods and services increased only marginally in 2004 (0.8%) but government investments in structures and machinery and equipment increased by 32.2%. Business investment in both residential and non-residential structures as well as machinery and equipment registered a jump of 22.3%

On a by industry basis, mining output increased by over 70% driven by higher gold prices and production. Construction experienced a boom year with overall growth of 22.8% built on increased residential, non-residential and transportation construction. Manufacturing in the territory also grew by 25.8% last year

Although construction of the Jeux du Canada Games Centre will come to a completion this year, other large construction projects are set to start up. These include work on the Athlete's Village for the Canada Winter Games, school replacement in Carmacks and school upgrades in Teslin, senior's housing projects in Whitehorse, multi-use Care Facility construction in Dawson and Watson Lake as well as continued highway construction. In addition tourism is forecast to have another growth year and mineral exploration should also increase with continued higher commodity prices. Increased government spending should also be a significant growth factor this year. Overall is expected that GDP growth in the territory should continue in 2005, increasing by an additional 3.0% over 2004 levels.

Population

Aided by positive net immigration, the average annual population of the Yukon grew in 2004 for the first time since 1997.

The annual average population of Yukon in 2004 as reported by the Yukon Bureau of Statistics was 30,637. This represents a 2.2% increase from the 29,967 average in 2003. By December of 2004 the population of the territory reached 31,127, a 2.9% growth rate from December of the previous year.

In December 2004 many Yukon communities recorded an increase in their population over the previous year. The largest increase was seen in Whitehorse where the population jumped by 780 persons. The population of Marsh Lake also showed an increase of 45 persons over the same time period. In contrast the populations of Carmacks and Mayo showed the largest declines in the last year as 17 and 9 individuals left each community respectively.

Positive net-migration continued for a second year in a row in 2004. Statistics Canada reports that net migration into the Yukon between July 1, 2003 and June 30, 2004 was positive. Over 400 more people migrated to the Yukon in 2004 than left. Positive net migration was observed from almost every province and territory into the Yukon. The largest provincial gain came from British Columbia where 216 more people came to the Yukon than left. The only jurisdictions which registered a net-loss from Yukon were to Nunavut where 7 more people left to than came from and Quebec which saw a net-loss of 49 persons.

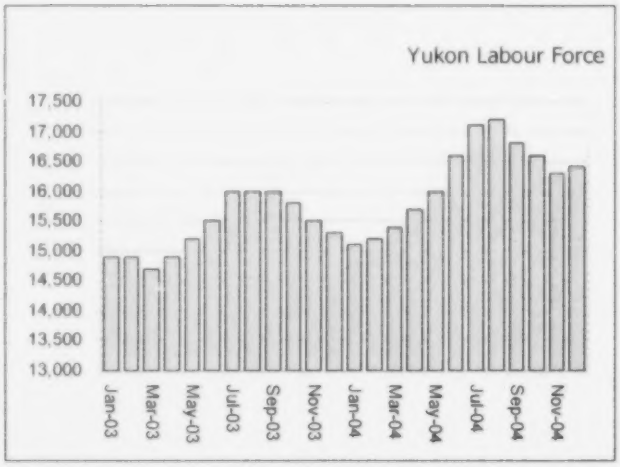
Community	Dec-03	Dec-04	Change
Whitehorse	22,425	23,205	780
Marsh Lake	279	326	45
Carcross	414	442	28
Dawson City	1,788	1,811	23
Faro	345	363	18
Beaver Creek	109	125	16
Burwash Landing	75	80	5
Teslin	417	419	2
Ross River	344	345	1
Destruction Bay	57	56	-1
Old Crow	265	264	-1
Haines Junction	790	789	-1
Tagish	186	184	-2
Watson Lake	1,551	1,547	-4
Pelly Crossing	285	279	-6
Mayo	395	386	-9
Carmacks	409	392	-17

Natural population growth, or the number of births in the Yukon less the number of deaths, contributed 194 persons to Yukon's population growth last year. This is consistent with the trend of the previous couple of years but down from the 1990's when natural population growth contributed an average of over 350 each year. This downward trend is not unique to Yukon and has been observed across Canada.

It is expected that population growth will continue at a moderate pace over the next year with continued positive net migration. In 2005 the Yukon's population should grow to average 31,400 over the year.

Labour Force and Employment

In step with Yukon's population growth in 2004, the average size of the Yukon labour force increased to 16,300 from an average of 15,400 the previous year; an increase of over 5.8%. Key to this growth was an increase in the participation rate[1]. In December 2004 the participation rate jumped to 75.9% from 72.9% in the same month in the previous year. This additional 3% of the working age population participating contributed an extra 650 persons to the size of the labour force.



In addition, the average number of people employed in the territory increased to 15,300 from 13,825 a year earlier. The average unemployment rate also dropped last year to 6.1% from 10.4% in 2003. This is the lowest average annual employment rate recorded since the Labour Force Survey commenced in 1992.

According to the Yukon Labour Force Survey average full-time employment increased by 1,100 in 2004 to 12,800 and the average number of part-time employees increased by 300 to 2,400.

Private sector employment showed the largest growth last year increasing by 800 to 7,100 and public sector employment increased by 500 to 5,700. In addition self employment grew by 100 to 2,400.

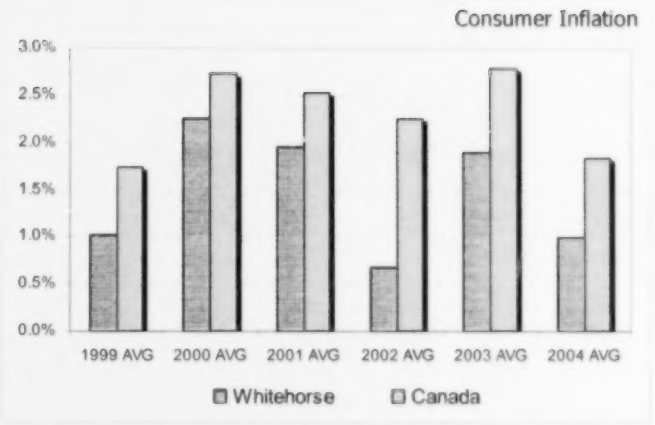
Employment in the first quarter of 2005 has continued to be strong and the unemployment rate has remained low. Based on these early indications and forecast opportunities in construction, natural resources and other industries, the size of the labour force should increase to an average of 16,800 in 2005. The unemployment rate should average 6.0% and there should be on average 15,800 employed with 1,000 persons actively seeking employment this year.

[1] Percentage of the working age population either employed or actively seeking employment

Consumer Prices

Consumer prices in Whitehorse[2] increased by 1.0% in 2004 following an increase of 1.9% in 2003.

Prices declined by -0.8% in the first quarter of the year however increased by 1.0% in the following two quarters and then shot up by 2.8% in the last quarter as a result of a spike in energy costs.



Increases in food prices in Whitehorse in 2004 were kept at bay with the noticeable exception of the price of chicken. An increase following the avian flu outbreak led to an overall jump in chicken prices by 16% in 2004. The prices of fruits and vegetables both decreased last year by -2.1% and -4.8% respectively. If you purchased food from restaurants in 2004 you were met with a 3.8% increase.

The price of shelter in Whitehorse demonstrated an overall increase of 2.0% in 2004 driven mostly by the 12.3% increase in the price of heating fuels. Household operations and furnishings, in contrast, showed a decrease last year of -1.4%.

Operation of vehicles last year saddled consumers with a 6.5% increase. Leading the way was an 11.1% increase in the price of gasoline on average in 2004. This was coupled with a 2.0% increase in automobile insurance premiums.

The increase in consumer prices in Whitehorse showed the same trend in 2004 as it did nationally but at a lower rate. Across Canada consumer prices increased by 1.8% in 2004 following a larger jump of 2.8% in 2002.

Consumer prices in Whitehorse should demonstrate larger increases in early 2005 as higher oil prices work their way through the economy. On average prices have increased by 2.0% in Whitehorse in the first quarter of 2005 however later in the year price increases should moderate somewhat barring any additional large energy shocks. The higher Canadian dollar should also serve to temper many price increases. Consumer prices in Whitehorse are expected to increase by an average of 1.5% in 2005.

[2] The Consumer Price Index is available in Yukon for Whitehorse only

3. Sectoral Outlook

Mining

A strong rebound has occurred in the mining and exploration sectors since 2003 and all signs indicate continued growth in 2005. Exploration levels have significantly increased, major mine developments are at or near approval stage and several major mineral deposits are advancing to development stage. In addition, sales of two mineral properties, United Keno Hill and Minto, were initiated in 2004 and it is hopeful that deals will close on these properties in 2005.

Commodity prices in world markets have been very strong for both base and precious metals. High prices have been primarily driven by the demand for minerals in Asia, and in particular China where very strong economic growth levels are being experienced. The current mining cycle is now projected by many mining analysts to have the potential to be long in duration, possibly up to 10 years or more, in comparison to historical shorter growth cycles.

Of particular importance to Yukon's mining industry is the price of mineral commodities such as gold, silver, zinc, lead, copper, molybdenum and tungsten. This directly relates to the size, number of deposits, and potential for future development of sites hosting these mineral commodities.

For precious metals, the price of gold continued to rise in 2004 ending the year at over $440 US per ounce. Silver also kept pace with price increases of gold, ending at $8 US per ounce by year end. This has generated continued interest in the precious metal sector. Prices for these precious metals are expected to show continued strength in 2005. This significantly enhances the economic viability for potential precious metal mine developments such as the Skookum property (Tagish Lake Gold), Minto property (ASARCO/Falconbridge) and the potential sale of United Keno Hill Mines.

The price of gold is also of particular importance to placer mine operators. However, increases in the prices have been somewhat offset by increased costs associated with the rising price of fuels. Yukon Placer gold production in 2004 totaled 101,108 crude ounces, up 80% from 2003. The total dollar value of Yukon placer gold produced in 2004 was about $42.9 million, more than double the $20.6 million in 2003. Placer gold production currently accounts for the vast majority of mineral production in the Yukon. The value of the Canadian dollar, the world price for gold and the new placer régime will be the main factors influencing how well the industry performs in 2005.

Base metals have also demonstrated sharp price increases as a result of strong global market demand and a positive future outlook. Average lead and zinc prices have shown increases in the area of 23% and 15% respectively between December 2003 and December 2004. The price of copper has also topped $1.45 US per lb recently with the average price increasing by about 30% over the past year. The average prices of these base metals are forecast to remain strong in 2005 due in part to lower inventories and increased demand. The price of base metals is important to a large number of projects including the proposed mine developments at Wolverine (Yukon Zinc), Carmacks Copper

(Western Silver), and numerous exploration targets in several key geological regions such as the Finlayson belt.

Another metal of key importance to the Yukon is molybdenum which has risen in price from approximately $6US/lb to $28US/lb during 2004. Molybdenum is primarily used in strengthening metals applied in oil and gas pipelines. Yukon hosts numerous molybdenum deposits and these price increases have sparked interest in such projects as Red Mountain (Tintina Mines). Improvements in tungsten markets have contributed in the ability for North American Tungsten to acquire financing for the potential reopening of the Cantung Mine in the Yukon-NWT border.

Yukon also hosts precious gem deposits, such as the search for emeralds by True North Gems on their Tsa da Glisza property (formerly Regal Ridge). In 2004 exploration efforts included 46 core holes (3084 m) with encouraging results. Several emerald properties in the general area were also explored and resulted in the discovery of several new mineralized zones.

Overall mineral exploration in Yukon increased dramatically in 2004 with estimated total expenditures of $22 million compared to $13 million in 2003. The continued strengthening of gold, silver and base metal prices, recent mineral discoveries and positive results from current exploration programs all indicate that Yukon will likely see increased exploration expenditures in 2005. The Yukon Chamber of Mines forecasts that mineral exploration spending could reach $39 million this year.

The largest exploration program in Yukon currently underway is being conducted by Yukon Zinc Corp. (formerly known as Expatriate Resources) on their Wolverine deposit. Yukon Zinc is advancing the project to a bankable feasibility and production decision in 2005. The project has $11 million budgeted for the exploration, feasibility study and test mining of the deposit in 2005.

The number of new mineral claims staked in 2004 rose substantially in 2004; the 9061 claims staked in 2004 is nearly a three fold increase over the 3571 claims staked in 2003. Quartz staking in 2005 is expected to exceed the numbers of 2004. Quartz claims in good standing were up about 13% over 2003 with 49,772 claims. Placer claims in good standing decreased marginally from 16,183 in 2003 to 16,054 in 2004.

The Yukon government continued to support the mining exploration industry by funding the Yukon Mining Incentive Program. In 2004 $1,046,500 was offered to 66 successful applicants. The Yukon Mineral Exploration Tax Credit program, which provides a 25% tax refund on eligible exploration expenditures, has been extended to March 31, 2007.

Oil and Gas

Yukon's oil and gas industry is continuing to emerge as an economic sector. There were two significant drilling projects undertaken in Yukon in recent months and the two northern gas pipeline projects continue to progress.

North American natural gas prices surged up by 30% in the fourth quarter of 2004, due in part to large crude oil price movements and colder than expected weather in some

parts of North America. Prices have generally cooled in the first few months of 2005 and natural gas inventories are estimated to be 25% higher than their five-year average. Prices in 2005 may exhibit short-term weakness as a result of the inventory build-up, however, the long-term outlook for natural gas prices remains strong.

Overall, the industry's interest in northern frontier and offshore plays is strong. This interest from industry underpins the business case for the development of the Mackenzie Valley Pipeline and the Alaska Highway Gas Pipeline projects. The Government of Canada has committed to bring forth its position on the applicability of the Northern Pipeline Act to a modern Alaska Gas Pipeline project. This will be an important step towards regulatory certainty for the project. Although construction is not imminent, progress continues towards bringing natural gas from Alaska to the lower 48 via the Yukon.

Devon Canada has invested in excess of $20 million in two separate drilling programs. A development well was drilled at the Kotaneelee field in southeast Yukon. The purpose of this program was to boost production levels that have declined sharply in recent years. An exploration well was drilled in Eagle Plain in north Yukon. This drilling program fulfills a work expenditure commitment and was necessary to extend the tenure of rights.

In 2004 the Yukon government issued a call for bids for rights in the Peel Plateau basin in northern Yukon. No bids were received. Yukon's next rights disposition is presently being planned. As the northern pipeline projects gather momentum, it is expected that Yukon's oil and gas resources will begin to attract significant attention from industry. New geological mapping surveys and resource assessments by the Yukon Geological Survey will help attract investment and encourage exploration of Yukon's hydrocarbon potential.

Renewable Resources

Production of Yukon forest products remained low in 2004. Low production is resulting from decreased volumes of timber harvesting for export while value-added production has remained fairly constant.

The Yukon Government has issued four timber harvest permits totaling approximately 36,000 cubic metres in the southeast Yukon through a process of open bids. These opportunities are pre-designed harvest areas consistent with the regional planning coordinated by the Kaska Forest Resources Stewardship Council. Another five permits totaling approximately 68,000 cubic metres have been engineered and environmentally assessed, and are available for sale when demand is demonstrated. There is an additional variety of small volume, point source permits issued throughout the territory. Sustaining this modest growth in the forest sector will be supported by new legislation (expected in 2005/06), larger, long-term tenures, continued development of innovative products and practices and the development of modern, efficient milling and processing facilities.

The first Strategic Forest Management Plan in the Yukon has received joint approval by the Yukon Government and the Champagne & Aishihik First Nations. This strategic plan

addresses the forested land-base within the CAFN Traditional Territory minus overlaps with adjacent traditional territories. When fully implemented, this effort will identify the extent of forest salvage opportunities within the 400,000+ hectare (and growing) area that is affected by the ongoing spruce bark beetle infestation from a forest land-base renewal perspective. Given the nature and configuration of the resource in this region, innovative approaches to harvest and marketing will be required to achieve the goals outlined in the strategic plan.

Overall there is potential for an increase in Yukon forest production in 2005.

The estimated value of Yukon furs sold at auctions remained relatively stable at around $250,000 in 2003/2004, up slightly from the previous season. The fur industry is still struggling to climb out of the gloomy decade experienced in the 1990's. Prices for some furs have improved but the Yukon fur industry has not recovered due to declining interest in trapping as a livelihood. However, should prices continue to improve, the numbers of active trappers and ultimately Yukon production will likely increase.

The value of agriculture production is estimated to have increased by around 7% to $4.5 million in 2004. Growth in game-farmed meat sales along with forage, honey and potato sales drove the increase. There is an anticipation of real growth in capital expenditures for farm equipment and infrastructure in 2005 and the Yukon is benefiting from significant federal funding and assistance. There is also interest in obtaining a mobile abattoir for the southern Yukon. The horse sector is an important part of the Yukon's agriculture industry and contributes significantly to overall industry growth and investment. Cereal crop production is also on the increase as are vegetable and bedding plant sales.

Construction

The value of building construction rose sharply in 2004, led by strong growth in institutional and residential construction activity.

The total value of permitted building construction in 2004 increased by 53% to $77.5 million with a single project accounting for the bulk of the increase. The Jeux du Canada Games Centre, with a permitted value of $25.2 million, pushed the value of institutional permits up 38% to $37.3 million. On the other hand, commercial activity was down in 2004, to $9.9 million in permitted construction from $14.5 million in 2003.

Yukon's residential builders were also busy in 2004, as the industry continued its run of strong performance. Lower interest rates, with expectations of rate increases in the near future, appear to be fuelling continued strong demand for new residential units. The number of residential permits issued was up 15% to 1,303 and the value of residential construction rose 38.5% to $37.3 million. Yukon Housing incentive programs and less restrictive mortgage terms offered through commercial lenders are also helping Yukoners invest in housing and are also supporting growth in the residential sector.

The vacancy rate for rental accommodations in Whitehorse increased in 2004, from 5.6% in December of 2003 to 6.1% in December 2004. Mortgage rates are generally expected to increase in late 2005, following the expected trend of the Bank of Canada's overnight lending rate. Should this translate into a large rise in mortgage rates the housing market, both nationally and within the territory, would likely lose momentum. If the higher rate scenario plays out later in 2005, residential construction is expected level off or decline slightly.

There are tangible signs that the 2005 building construction season will equal the strong performance experienced in 2004. The construction of the athlete's village for the 2007 Canada Winter Games is the largest single building project anticipated in 2005. The City of Whitehorse and the Yukon government recently announced a funding agreement for the project, estimated at over $30 million. Social and student housing at Yukon College will be the legacy usage of the athlete's village project. The City of Whitehorse will also proceed with continued development of the Whitehorse waterfront in the old Motorways area.

The Yukon Government also has a full-slate of building and infrastructure development projects including construction of the Tantalus School in Carmacks, major renovations to the Porter Creek Secondary and Teslin schools, sewage treatment projects in Dawson City, Burwash Landing and Carmacks, replacement of the air terminal building in Old Crow and waterfront development projects in both Whitehorse and Carcross. New $5.2 multi-level care facility projects in both Watson Lake and Dawson City will be initiated in 2005 as will two new senior's housing projects in Whitehorse.

The Shakwak project will again account for the majority of highway construction in 2005, with approximately $24.4 million in spending planned. As well $10.5 million in upgrades to the Alaska Highway will be undertaken including grade construction between Whitehorse and Haines Junction. An additional $8.0 million will be spent on upgrades to a number of roads and highways, including $2.75 million on various sections of the Campbell highway.

The Yukon government will spend $4.0 million for bridge upgrades and development, including the Yukon River Bridge in Dawson City. Also planned is a $5 million replacement of the mobile radio communications system throughout the Yukon.

The construction industry in Western Canada is experiencing cost increases for transportation as well as for labour and material inputs. Indications are that these costs are being passed along to developers, including government, resulting in some higher than expected bids for projects tendered in 2005. This trend will be monitored for its potential effects on the Yukon construction industry.

Tourism

The Canadian Tourism Industry suffered through a disappointing year in 2003 with the number of US and International visitors coming to Canada decreasing by 13% over the previous year. Although the Yukon fared better than the national average with only a 3% drop, there was still concern that this trend may continue. However, starting by the

end of the year the tourism picture began to brighten. By June 2004, Canada recorded the fourth straight monthly increase in international travelers. Yukon's border crossing numbers for June 2004 were also up for the third month in a row.

Overall, from January through December 2004, 315,838 visitors crossed Yukon's borders, an increase of 12,106 or 4% over 2003. During this period, 80,091 motorcoach passengers entered the Yukon, an increase of 23,289 or 41% over last year, largely due to an increase of cruise ship day tour activity out of Skagway, Alaska. Private vehicle traffic however, was down 11,183, a 4.5% decline. US visitors were up by 6,951, an increase of 3.2%; Canadian visitors were down 893 or –3.0%; and international visitors were up 2,775, or nearly 12.0%.

Last summer Condor/Thomas Cook again operated direct charter flights between Frankfurt, Germany and Whitehorse. The number of European visitors arriving directly from overseas increased by over 300 or approximately 7.4% from last year's figures. Whitehorse airport traffic, which is not included in border crossing statistics, was up nearly 10% over 2003.

Yukon's visitor information centres registered 229,362 visitors from May through September 2004. This is an increase of 13,482, or 6% more than the previous year.

Anecdotal information from Yukon tourism businesses suggests they will experience a good winter and a busy summer season. Wilderness adventure operators, which specialize in dog sledding and northern lights viewing, are showing strong bookings and an increase over last season. The wilderness adventure and accommodation sectors are generally optimistic about the coming summer. The number of wholesalers featuring high quality tour programs continues to increase as well as the availability of these programs throughout the year.

In an effort to better measure the level and impact of tourist visitation to the Yukon, the Department of Tourism and Culture conducted a Visitor Exit Survey during the summer of 2004. Preliminary results show that number of visitors coming to the Yukon in the summer of 2004 (June 1 through September 30) increased by 8.1% from the last visitor exit survey in 1999. The survey also showed that visitor spending increased by 12% after adjusting for inflation over the same period of time.

Nationally, the Conference Board of Canada summarized the 2004 tourism industry as making solid progress and recovery now appears firmly rooted. Overseas arrivals from most of Canada's key markets exceeded expectations last year and Canada's domestic travel industry was able to hold its own but a rebound in U.S. travel fell short of many operators' expectations.

The World Tourism Organization (WTO) is confident that tourism has strengthened following three difficult years. WTO growth expectations for 2005 are moderate citing sustained growth in leisure travel and further recovery in business travel. High oil prices are seen as a concern but so far have not affected the tourism sector to a huge extent.

The Conference Board of Canada projects that overnight travel to Canada for 2005 will increase by 4.0% over 2004 and that overall tourism spending is estimated to grow by 5.0%. The department of Tourism and Culture is projecting travel to the Yukon in 2005 will grow by 4.0% and that direct visitor expenditures will increase by the same amount.

Compared to the same months in 2004, Statistics Canada's International Travel Survey indicates international overnight travel to Canada increased by 1.1% in January, 3.8% in February and 7.4% in March 2005. During the first quarter of 2005, U.S. visitors to Yukon remained unchanged from 2004, while overseas visitors increased by more than 21%.

Government

The public sector has traditionally provided stability for the Yukon economy. In recent years, government spending has prevented a major economic downturn resulting from the slow-down in resource sectors.

The federal government has recently expanded its programs and spending across the North at an unprecedented rate. There have been a sweeping set of funding commitments made by the government of Canada in recent months, which include:

- The $60 million Northern Health Care Accord, of which $20 million has been allocated to the Yukon. The funding has been provided over three years and concludes in 2005/06.

- The Health Access Fund, which will provide $150 million of funding to be shared by the three northern territories over the next five years.

- Adjustments to the territorial Formula Financing Agreement, which will see base funding to the three territories increase by 5.3% initially and then escalate by 3.5% over the following five years.

- The Pan-northern Economic Development Fund will provide $90 million over five years, $30 million to each territory.

- The Northern Strategy includes $120 million in funding, $40 million per territory, over the next three years.

- The Yukon's share of the redistributed federal gasoline excise tax will total $37.5 million over five years.

- The Municipal Strategic Infrastructure Fund will inject $16 million of federal spending into the Yukon economy over five years.

- The Canadian Strategic Infrastructure Fund (CSIF), announced in the 2003 budget, will also provide $11.5 million of federal funding in 2005 for Yukon

projects. The total federal CSIF commitment to the Yukon is $55 million.

- The federal Mine Reclamation Fund, announced in the 2004 budget, will see $11.9 million in funded projects in the Yukon in 2005.

These new expenditures enhance the role of the public sector in the Yukon as a major generator of jobs and income and will be a key factor driving economic growth in 2005.

Over a third of the Yukon workforce is directly employed by federal, territorial or municipal levels of government. Many more businesses or individuals indirectly depend on government spending for their livelihood. First Nation governments are also playing an increasingly important role in the Yukon, but there is currently little data available on their overall number of employees and expenditures.

Total budgetary spending by the Yukon government is budgeted to increase 5% to $784.4 million in 2005/06. Government of Yukon highway projects include the Shakwak corridor highway project, upgrades to the Alaska Highway north of Whitehorse and the Yukon River Bridge at Dawson City. An air terminal building in Old Crow, replacement of the Tantulus School in Carmacks and design work on two new multi-level care facilities in Watson Lake and Dawson City are the major capital building projects planned by the territorial government in 2005/06. As well, the Yukon government will undertake sewage treatment projects in Dawson City, Burwash Landing and Carmacks.

The City of Whitehorse will be proceeding with construction of the Whitehorse Waterfront in the old Motorways area in 2005. Overall, planned expenditures by the City of Whitehorse in 2005 are down 8% to $47.9 million. The wrap-up of the large Jeux du Canada Games Centre project in 2005 is the key reason for the decrease.

The process of land claims settlement continued in 2004 and more progress has happened in the first half of 2005. The Kluane First Nation became the ninth self-governing First Nation in February 2004. The Kwanlin Dun First Nation ratified its land claims agreement in 2004 will become Yukon's tenth self-governing First Nation. The Carcross/Tagish First Nation's first ratification vote in April 2004 was not successful but the First Nation proceeded to a second vote in May 2005 which successfully ratified the agreement and will make it Yukon's eleventh self-governing First Nation.

The White River First Nation's land claim awaits a ratification vote and the two remaining First Nations without a Memorandum of Understanding to settle their claims are the Liard First Nation and the Ross River Dena Council. In the interim, they have signed the Yukon/Kaska Bilateral Agreement, setting out a process which could allow economic activities to occur on lands within the Kaska traditional territory in the southeast Yukon.

Retail Trade

Retail trade grew again for the thirteenth straight year in 2004 however growth was significantly slower than in previous years. Overall retail trade grew by 0.6% to $425.1

million in 2004. Early year sales faltered while late spring/summer sales remain similar to the previous year. Fourth quarter 2004 sales did demonstrate a rebound by increasing by about 5% over the same period in 2003.

The largest component of retail trade in the territory is automotive sales which accounts for over 35% of retail trade. This includes both new and used vehicle sales from dealers as well as auto parts and service stations. In 2004 this group increased by 4.0% to $154.5 million. The second largest component of retail trade is food and beverage stores (just under 30%). Food and beverage stores recorded a 9.6% increase last year to $121.5 million.

General merchandise stores showed an increase of 5.9% over 2003 to $57.7 million. Although sales from clothing and accessories stores showed a small decline of -0.9% , the largest overall decline was in the "catch-all" other trade groups category which reported an -18.0% (or about $17.0 million) decrease in 2004 to $77.1 million.

Yukon retailers serve a larger market than just the territory itself. Although statistics are not available, many tourist visitors as well as cross-border shoppers from Alaska spend significantly on goods and services in the territory. The recent depreciation of the US dollar as well as higher fuel prices contributing to higher travel costs will probably provide some disincentives for these US residents to shop in the territory to the level that they have in the past.

Retail sales in the first quarter of 2005 have shown continued modest growth increasing over the same quarter in 2004. With automotive sales expected to increase nationally, an expected stronger tourist season, continued general economic growth and a forecast increased population in the territory it is expected that retail sales should increase by 1.5% in 2005 to about $431.5 million.

Key Economic Indicators Summary Table

Indicator	2003	2004	2005 (f)
Population, Prices, Rates †			
Population	29,967	30,637	31,400
Inflation Rate (CPI for Whitehorse)	1.9%	1.0%	1.5%
Prime Rate	4.69	4.00	4.29
U.S./Canada Exchange Rate	0.714	0.768	0.81
Employment †			
Labour Force	15,400	16,300	16,800
Employment	13,800	15,300	15,800
Unemployed	1,600	1,000	1,000
Unemployment Rate	10.4%	6.1%	6.0%
Economic Output			
Real Gross Domestic Product (chained 1997$)	$1,165 million	$1,210 million	$1,245 million
Real GDP Growth Rate	0.2%	3.7%	3.0%
Commodity Prices †			
Gold	$363.54 US/oz	$409.32 US/oz	$433.38 US/oz
Silver	$4.91 US/oz	$6.69 US/oz	$6.75 US/oz
Lead	$0.231 US/lb	$0.397 US/lb	$0.400 US/lb
Zinc	$0.373 US/lb	$0.471 US/lb	$0.564 US/lb
Copper	$0.801 US/lb	$1.288 US/lb	$1.367 US/lb
Oil (West Texas Intermediate Crude)	$31.12 US/barrel	$41.42 US/barrel	$48.77 US/barrel
Natural Gas (NYMEX)	$5.49 US/MMBtu	$6.18 US/MMBtu	$6.39 US/MMBtu
Lumber (West. SPF 2X4)	$277 US/mbf	$394 US/mbf	$360 US/mbf
Mining			
Value of Mineral Production	$26.5 million	$54.5 million	--
Exploration Expenditures	$13 million	$22 million	$39 million
Oil and Gas			
Volume of Natural Gas Production	255,000,000 m^3	187,000,000 m^3	--
Tourism			
Border Crossings+	303,732	315,838	328,500
Government			
YTG Expenditures*	$627 million	$747 million	$784 million
Construction			
Permitted Building Construction	$50.8 million	$77.5 million	$70-$75 million
Retail Trade			
Value of Retail Sales	$422.4 million	$425.1 million	$431.5 million

f = forecast,
-- = not available
† annual averages
** 2003 = 2003/2004; 2004 = 2004/2005; 2005 = 2005/2006.*
+ Passenger totals do not include train visitors, those in commercial vehicles, visitors arriving by air, or marine arrivals (Dawson City)

Data Sources:

Indicator	*Source*
Population	2003 and 2004: Yukon Bureau of Statistics, *Yukon Population Estimates.* 2005: Yukon Economic Development forecast.
Inflation (Consumer Price Index)	2003 and 2004: Statistics Canada, *Consumer Price Index.* 2005: Yukon Economic Development forecast.
Prime Rate	2003 and 2004: Bank of Canada (average of end of the month rates). 2005: Conference Board of Canada forecast - March 16, 2005.
Canada/U.S. Exchange Rate	2003 and 2004: Bank of Canada (daily average noon rate). 2005: Yukon Economic Development survey of forecasters.
Labour Force Indicators	2003 and 2004: Yukon Bureau of Statistics *Yukon Employment.* (Seasonally-adjusted figures.) 2005: Yukon Economic Development forecast.
Economic Output (GDP)	2003 and 2004: Statistics Canada, *Provincial Economic Accounts* Cat. No.13-213. 2005: Yukon Economic Development forecast.
Metal Prices	All Years TD Canada Trust Economics
Value of Mineral Production	2003 and 2004: Natural Resources Canada Minerals and Metal Sector ISSN 0709-292X (SS# 00-12) and Yukon Economic Development
Exploration	2003 and 2004: Department of Indian Affairs and Northern Development, Exploration and Geological Services Division. 2005:Yukon Chamber of Mines
Natural Gas Production Volume	All years: Energy, Mines and Resources, Oil and Gas Branch.
Tourism Visitation	All years: Yukon Bureau of Statistics and Yukon Tourism
YTG Expenditures	All years: Yukon Finance.
Permitted Building Construction	2003 and 2004: Yukon Bureau of Statistics. 2005: Yukon Economic Development
Retail Trade	2003 and 2004: Statistics Canada, *Retail Trade,* Cat. No. 63-005. 2005: Yukon Economic Development forecast.